

STATE OF IOWA
IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:

IOWA-ILLINOIS GAS AND
ELECTRIC COMPANY

DOCKET NO. U-363

DECISION AND ORDER

(Issued June 21, 1973)

APPEARANCES:

EDWARD J. HARTMAN, 206 East Second Street, Davenport, Iowa; DONALD H. SITZ, 717 Davenport Bank Building, Davenport, Iowa, appeared for Iowa-Illinois Gas and Electric Company.

PHILIP B. MALTER, Commerce Solicitor, 300 Fourth Street, Des Moines, Iowa, 50309, appeared for the Commission.

I. PROCEDURE

This is a proceeding under Chapter 490A, Code of Iowa, 1973, to determine the reasonableness and justness of revised rates for electric and gas service filed with the Commission by Iowa-Illinois Gas and Electric Company (Company) on August 30, 1971. Company initially proposed to increase its annual electric revenue by 12.9% or \$3,544,000 and its annual gas revenue by 10% or \$3,550,000 based on operations for the calendar year 1970. Company concurrently filed testimony and information to support the proposal.

On September 27, 1971, Commission suspended the proposed increases, instituted an investigation of the proposed rates, and ordered that the rates be set for hearing. The Company placed the revised rates in effect under bond, subject to refund, on December 31, 1971.

By stipulation on October 13, 1972, the parties agreed: (1) to an equal allocation of the institutional advertising expense between the Company and the public, i.e., the cost of service would be decreased by one-half of the claimed institutional expense, or by the after-tax amount of \$31,960; (2) that rate case expense as determined by the Commission will be amortized over a three year period in determining the appropriate cost of service; (3) that at the end of the period, the revenue resulting from the inclusion in excess of subsequent rate case expense will be included in a reserve account and deducted from the rate base; and (4) that the demand allocation ratio shall be 57.7%, determined by utilizing the average ratios of 1969, 1970, and 1971.

By stipulation on March 21, 1973, data for calendar year 1972 was made a part of the record and 1972 was adopted as the test year; and it was agreed that the ultimate rates prescribed should be in two parts, the first effective December 31, 1971, and the second subsequent to December 31, 1972.

Hearings commenced on June 9, 1972, and concluded December 31, 1972. The City of Fort Dodge, Iowa, intervened thus becoming a party to the proceeding, but did not actively participate in the hearings.

II. THE COMPANY

Iowa-Illinois Gas and Electric Company is a public utility engaged in generating, transmitting,

If we make no adjustment in the locked-in period (1972) for the cold weather, neither Company nor the consumer would profit nor lose.

However, if we apply the weather adjustment in the locked-in period, as Company requests, Company will have taken in the additional \$969,661, but the rates will be set to be fully compensatory without those revenues. Hence, pursuant to Company's request, it would receive in the locked-in period, not only fully compensatory rates pursuant to our order, but also \$969,661 in windfall profits. We cannot permit this and, therefore, must exclude the weather adjustment from the locked-in period.

V. RATE OF RETURN

In this proceeding Company assisted us with a great array of rate of return witnesses. Company Witnesses Hais, McHarg, and Foster testified that, predicated upon comparisons with the returns on book value of allegedly comparable companies, a fair rate of return on Company's equity is 14%. Company Witness Shaw explained that Company requires a minimum of 13.4% on equity to continue to issue debt securities under its existing indenture restrictions. Company Witnesses Vanderpool and Foster, together with the Staff Witness, offered evidence of current investors' requirements in the market place supporting a range of the current cost of equity capital of 11.2% to 12.5%.

We cannot have Company's indenture requirements dictate our ultimate finding herein. The indenture is a contract between Company and its creditors. Company's indenture was the most restrictive A-rated utility indenture issued in 1968, and the only one which required two times interest coverage after taxes. One-quarter of the other indentures issued contained no coverage restrictions whatsoever. In no way can it be said that Company had to accept terms anywhere as restrictive as these. We will not permit private contracts such as these to dictate our ultimate findings.

As we have found many times before, comparable earnings on book value do not aid us in determining the cost of equity capital. Comparable earnings on book value do not evidence alternative investment opportunities nor the opportunity cost of capital. Earned returns, simply because they are earned, are not thereby converted into fair returns nor required returns.

Company Witness Foster acknowledges that the earnings on book value of his allegedly comparable companies are greater than the current cost of equity capital, but argues that the current cost of capital doesn't include a compensation for past inflation and therefore can only be used with a present value rate base. We must categorically reject this argument.

As we explained in our discussion of fair value (supra, pages 4, 5, and 10) if a utility continually earns a return on equity equal to the current cost of equity applied to an original cost rate base, it is fully compensated for all inflation past and present. Dr. Foster's testimony has the concept reversed. The current cost of capital can only be applied to an original cost rate base. If we were to use a present value rate base we would have to use a return on equity of about 7-1/2%, which is far lower than the current cost of equity.

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Company and Dr. Foster also argue that since allowing a return on equity equal to the current cost of equity tends to produce a market price of its common stock equal to the book value (or more accurately the equity share of a net investment rate base), and since book value is uncompensated for inflation, an inflation factor should be added to the current cost of equity in order to allow a higher market price.

Here too, we must reject Company's position. The record conclusively demonstrates that if a utility earns a return on equity equal to the cost of equity as determined by a market based method such as discounted cash flow (DCF), it follows as a matter of simple arithmetic that the utility is automatically allowed an inflation compensation in an original cost rate base, rate of return, and book value. Thus, when market price approximately equals book value, Company is fully compensated for past and present inflation; and if we were to allow market price to rise over book value to compensate for inflation, this would also grant a double compensation for inflation.

For the current cost of equity capital Dr. Foster used his version of DCF. In his DCF computations, Dr. Foster utilized Company's dividend yield plus the five-year growth in book value for the periods ending in 1967, 1968, 1969, 1970 and 1971:

Year	Five-Year Compound Annual Growth Rates		Total
	Book Equity Per Share	Dividend Yield	
1967	5.4	4.7	11.1%
1968	5.0	5.1	11.1
1969	5.4	5.7	11.1
1970	5.3	6.7	12.0
1971	4.5	6.9	11.4

He said, based on this data, that the investors' capitalization (dividend yield plus growth) is 11.75%. He then found that market pressure and financing required that 7% be added to market price, which would produce a cost of equity of 12.5%.

Staff Witness Armknecht also applied a DCF formula. Mr. Armknecht found the fair return on equity to be 11.2% by measuring the dividend yield (adjusted for market pressure and financing) plus five and ten year least squares earnings growth for 1967 through 1971. Mr. Armknecht then checked his 11.2% recommended return on equity for Company against the cost of equity of thirteen comparable companies and found them to average 11.4%.

Company Witness Vanderpoel, although not actually finding a cost of equity figure agreed that the investors are currently requiring about an 11% return on their investment in Company's stock.

Although we agree with the DCF concept, we cannot accept the particular formula applied by Dr. Foster or Mr. Armknecht as being the single and accurate measurement of current investors' requirements. There is a degree of estimate and inaccuracy built into any method of determining the growth rate being discounted by investors at any point in time. Growth in book value, although a stable measure, can be biased by past experiences which are not reflective of current conditions or anticipated conditions. Growth in earnings per share are more volatile and can show large variations from year to year.

Dr. Foster's recommendations are also biased upward by his erroneous adjustment of both dividend yield and growth for market pressure and financing. It is inherent in the DCF formula that

only the dividend yield portion of the formula is adjusted for market pressure and financing.

If we were to substitute Company Witness Vanderpoel's 11% for Company Witness Foster's 11.75% (dividend yield plus growth), Company's cost of equity would be reduced to 11.8% (uncorrected for market pressure and financing error) and about 11.4% (corrected).

Based on these considerations and exercising our best judgment on all the evidence of record, we find that the cost of equity for Company is within the range of 11.4% to 12.0%.

In stable times, or if we were dealing with a utility which has shown a stable earnings trend, we would predicate rate increases upon a return on equity toward the lower end of the cost of equity range. However, on this record Company has shown general attrition in earnings caused in great part by the ongoing inflation in the economy.

Accordingly, we will allow Company to earn in the prospective period, subsequent to December 31, 1972, a return on equity of 12.0%, which is equal to the upper limit of the cost of equity range. While allowing 12.0% it should be understood that any near term further requests for rate increases should be based on a showing that Company's earnings have slipped below the minimum end of this cost of equity range.

In this case we are also presented with a new problem. In order to be able to regulate without regulatory lag, and with the most accurate and current data possible, we have gone to a two phase rate order. The first phase determines past rates on test period which is identical to the period for which the rates are being set, i.e., the year 1972. Accordingly, for this period Company receives a guaranteed recovery of all proper costs it incurs.

The record does not speak to how much lower a fair return on equity should be given a guaranteed recovery. However, under the circumstances presented here there is no reason apparent to us to permit a guaranteed recovery on gas rate base greater than the minimum of the cost of equity range. Therefore, we will allow Company to earn 11.4% return on the equity portion of its gas rate base for the locked-in, December 31, 1971, through December 31, 1972, period.

We will, however, allow Company to earn 11.7% on the equity portion of its electric rate base for the locked-in period. An 11.4% return on equity would produce electric rates lower than those in effect prior to Company's rate increase. While we do not doubt our authority to reduce rates to a lower level than the preexistent rates, we explained in Interstate Power Company, Docket No. U-344, that we would not do so unless the earned return at the previous rate level was above the upper limit of the cost of equity range. An 11.7% return on the equity portion of the electric rate base for the locked-in period will reduce rates to the level of electric rates which existed prior to the current increase filing, and is below the upper limit of the cost of equity.

Including a return for the debt and preferred equity portions of Company's capital structure equal to the embedded cost of debt and preferred equity capital pursuant to the parties' stipulation, the fair rates of return for the locked-in period are 7.89% for gas, and 7.99% for electric, and for the prospective period, 8.26% for both gas and electric.

VI. REVENUE REQUIREMENTS

Consistent with the foregoing, and including those items undisputed in the proceeding herein, we

DOCKET NO. U-483

STATE OF IOWA

IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY, DAVENPORT, IOWA

DOCKET NO. U-483

DECISION AND ORDER

(Issued April 30, 1976)

APPEARANCES:

EDWARD J. HARTMAN, 206 East Second Street, Davenport, Iowa; DONALD H. SITZ, 700 Davenport Bank Building, Davenport, Iowa, appeared for Iowa-Illinois Gas and Electric Company.

WILLIAM F. SUEPPEL of Meardon, Sueppel, Downer & Hayes, 100 South Linn Street, Iowa City, Iowa, 52240, appeared for Iowa League of Municipalities.

JAMES R. MARET and LEO J. STEFFEN, JR., Assistant Commerce Counsels, 300 Fourth Street, Des Moines, Iowa, 50319, appeared for Commission Staff.

I. PROCEDURE

This proceeding was commenced by Order of January 31, 1974, pursuant to Chapter 490A, Code of Iowa, 1975, to determine the reasonableness and justness of revised electric and gas service rates filed by Iowa-Illinois Gas and Electric Company (Iowa-Illinois or Company) on January 25, 1974. According to these rate revisions, Company proposed to increase annual electric revenues by \$2,722,000 and annual gas revenues by \$2,892,000. In that Initial Order, we suspended the overall rate increase for twelve months, but at Company request, increased "interim" rates of a combined amount, aggregating \$2,950,000 for gas and electric, were allowed to go into effect, subject to refund, on March 4, 1974, following only a one-day suspension. On August 1, 1974, we modified

operating expenses. Staff rejected this treatment as being a violation of the matching principle and included the actual costs as experienced by the Company during the 1975 "locked-in" period.

We find that Staff's treatment of the operating expenses associated with the O.C.C. is the proper method to employ in this proceeding for the same reasons we set forth in our discussion of the treatment to be given the O.C.C. in determining the rate base. (Supra, p. 6).

V. RATE OF RETURN

In this proceeding there was no disagreement between the parties as to the capitalization ratios or embedded cost of debt and preferred stock. However, there was a considerable difference in the testimony between Company and Staff regarding the cost of equity capital. Company Witness Foster testified that by using (1) discounted cash flow; (2) earnings/price ratio; (3) comparable earnings; and (4) effects of inflation on the cost of capital, he found that the cost of equity capital for Company was 15 to 16 percent.

Company Witness Vanderpoel testified that the capitalization rate for Company was 25 to 33 percent above the cost of long-term debt and after considering inflation that the cost of equity was 15 percent. Company Witness Shaw testified that by restating the current dollars in the common equity of the Company through adjustment for inflation for the period 1941 through December 1974, the cost of equity was 8.5 percent. This equates to a 15 percent return on the actual equity recorded on Company books.

Staff Witness Kosh offered evidence of current investors' requirements in the market place and concluded that the capitalization rate was 11.5 percent. Staff Witness Armknecht testified that certain adjustments should be made to the capitalization rate to reflect the expenses associated with the issuance of additional common equity and found the fair rate of return on equity for Company to be in the range of 12 to 12.4 percent. He further recommended that the Commission apply the lower end of his recommended return for the locked-in periods.

to first ascertain the market cost of equity and then determine the amount of inflation included therein and make the appropriate reduction. This would call for an additional judgment factor in our determination process and indeed could result in a less precise finding on our part.

Company Witness Vanderpoel testified that the capitalization rate for common stock equity was approximately 25 percent to 33 percent higher than the cost of long-term debt. When one applies the average for double A bonds during 1974 and 1975, Mr. Vanderpoel's methodology would support a capitalization rate in the range of 11.5 percent to 12.3 percent.

Staff Witness Kosh applied a DCF formula in arriving at his recommended capitalization rate of 11.5 percent. In arriving at this recommendation he measured the dividend yield (average dividend yield for the year-end period April 1972 through March 1975) plus a least squares earnings growth study the period beginning in 1957 and ending in 1973, as well as other studies included in his testimony. He then checked his 11.5 percent recommended capitalization rate for Company against the capitalization rates for eight comparable companies which he found to average 11.42 percent.

Staff Witness Armknecht then accepted Mr. Kosh's capitalization rate of 11.5 percent and adjusted for the cost of financing. On this basis he concluded that the cost of equity capital for the Company was in the range of 12 percent to 12.4 percent. He further recommended that Company be allowed the minimum end of the range for the locked-in periods involved in this proceeding, and the maximum for the prospective period.

As previously indicated, by applying Company Witness Vanderpoel's methodology to a more representative time period, we arrive at a capitalization

rate in the range of 11.5 percent to 12.30 percent, which although somewhat higher than Mr. Kosh's recommendation, is in substantial agreement.

Based upon these considerations and exercising our best judgment on all the evidence of record, we find the cost of equity for the locked-in periods to be 12.25 percent to 12.75 percent.

Because of the nature of a locked-in test period which affords a type of guaranteed recovery of costs, and which in turn has the affect of reducing risk, we find that the minimum of the cost of equity range, 12.25 percent, should be allowed for the locked-in periods provided for by this proceeding.

In making our determination as to the cost of equity for the prospective period, we will take official notice of the improvements in the rate of inflation, debt costs and the stock market, which have occurred since the witnesses testified in this proceeding. ^{4/} All of these factors indicate that the cost of equity has decreased since that time and therefore we will allow a return on equity for the prospective period at the minimum of the range--12.25 percent. ^{5/}

Including a return for the debt and preferred equity portions of Company's capital structure agreed to by the parties, the fair rates of return for the 1974 locked-in period is 8.52 percent; for the January 1, 1975 to June 30, 1975, locked-in period, 8.66 percent; and for the prospective period beginning July 1, 1975, 8.91 percent.

^{4/} While we are aware that Chapter 17A, The Code 1975, does not apply to this proceeding, per se, for the most part it follows the provisions of the common law and wherever possible we try to conform with the Administrative Procedure Act. Therefore, any party to this proceeding who desires to respond to those items where official notice has been taken in this proceeding may do so by applying for rehearing and stating his response at that time.

^{5/} In regard to Company's arguments about attrition, we note that for the purposes of this proceeding we allowed the Company to update the test period to 1974, and accepted the parties use of an updated January 1-June 30, 1975 test period. As a result of the updatings and our findings in this Order, as well as knowledge that Company has recently filed for an additional rate increase, much of Company's alleged attrition disappears. We are constrained from allowing for any possible attrition of earnings unless the record clearly supports such an adjustment. Said evidence is lacking in this record.

DOCKET NO. RPU-85-22

STATE OF IOWA

IOWA STATE COMMERCE COMMISSION

IN RE:

IOWA GAS COMPANY

DOCKET NO. RPU-85-22

FINAL DECISION AND ORDER

(Issued June 27, 1986)

APPEARANCES:

Appearing on behalf of Iowa Gas Company:

SHEILA K. TIPTON, Esq., Bradshaw, Fowler, Proctor & Fairgrave, 1100
Des Moines Building, Des Moines, Iowa 50309, andKEITH D. HARTJE, Esq., Associate Counsel, Iowa Gas Company, 636 Grand
Avenue, Des Moines, Iowa 50309.

Appearing on behalf of the Office of Consumer Advocate:

GARY D. STEWART, Esq., Office of Consumer Advocate, Lucas State Office
Building, Des Moines, Iowa 50319.

Appearing on behalf of Intervenor City of Des Moines:

MICHAEL R. MAY, Esq., Barrett & Trott, 910 Equitable Building, Des
Moines, Iowa 50309, andM. A. IVERSON, Esq., City Solicitor, City Hall, City of Des Moines,
East 1st & Locust, Des Moines, Iowa 50307.Appearing on behalf of Intervenor National By-Products and Iowa Energy
Group:STUART W. CONRAD, Esq., Lathrop, Koontz, Richter, Clagett, Parker &
Norquist, 26th Floor, Mutual Benefit Life Building, Kansas City,
Missouri 64108.

Appearing on behalf of Intervenor Deere & Company:

ELIZABETH O. SHAW, Esq., Deere & Company, John Deere Road, Moline,
Illinois 61265.

unpaid balance being the interest rate dictated by Iowa Power." Because of this, the OCA recommends the Commission look at an overall rate of return based on the utility operations cost of capital of Iowa Resources or Midwest Energy, the overall market cost of capital based on the price paid for Iowa Gas by Midwest Energy or the interest rate currently applicable to a bond issue large enough to finance the acquisition. We have recomputed the actual capital structure and will accept Iowa Gas's calculation of the cost of debt at 10.117 percent. (Company Exhibit 8, Sch. 3, p. 1.) This amount reflects Iowa Power's actual embedded cost of debt.

C. Cost of Common Equity

Iowa Gas witness Mount recommended 16.3 percent cost of common equity using the Discounted Cash Flow (DCF) model. (Tr. 349-55; Ex. 7, Sch. 5-8.) In his analysis, he studied thirteen gas distribution utilities with comparable risk and computed the common stock dividend yield (8 %). (Tr. 349.) He then computed the expected growth rate (7%) using historical data and Value Line projections. (Tr. 349-52.) He added the dividend yield plus the growth rate and adjusted the figure to recognize the cost of selling new stock and to avoid dilution of common stock value. (Tr. 352-55.)

OCA witness Rasmussen recommended 12.875 percent return on equity also using the DCF model. (Tr. 972; Ex. 126, Schs. B and C.) He criticized the companies analyzed by Iowa Gas as not comparable and charged Iowa Gas's growth rate was exaggerated. Dr. Rasmussen estimated the cost of equity to Iowa Gas by estimating the cost of common equity for Iowa Resources and Midwest Energy. His computed dividend yield was 8.8 percent for Iowa Resources and 9.4 percent for Midwest Energy. (Tr. 967-69.) Rasmussen

Docket No. RPU-85-22

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then adopted OCA witness Habr's growth rate for Midwest Energy of 3.157 (Tr. 969-70) and computed Iowa Resources growth rate as 3.75 percent (Tr. 970). He concluded a growth rate not in excess of four percent was appropriate. (Tr. 970-71.)

We believe that Dr. Rasmussen's 12.875 percent is a realistic return on equity. The seven percent expected growth rate proposed by Iowa Gas is totally unrealistic and unsupported by valid evidence and Iowa Gas's suggested 16.3 percent cost of common equity is simply not a rational expectation for investors in the current market.

VI. OPERATING INCOME AND REVENUE REQUIREMENTS

A. Uncontested Adjustments

We have reviewed the uncontested adjustments found on pages 39-41 of Iowa Gas's initial brief and approve them with several exceptions. We will disallow the \$30,000 adjustment to reflect the flow-through of a subsidiary loss. Iowa Gas has not met its burden of proof. We can think of no justification for requiring ratepayers to pick up the loss incurred by Gas Resources, Inc., a gas exploration subsidiary of Iowa Gas. (Tr. 165.) Secondly, we will disallow the \$60,000 adjustment to annualize computer lease costs. (Tr. 171.) We assume that the computers at issue are used in billing Iowa Gas's customers. Our complaint files are replete with examples of billing problems due to computer errors. We see no reason to require ratepayers to pay to continue a system that causes nothing but problems.

Under Iowa Code § 476.6 (1985), the Commission has an independent duty to determine just and reasonable rates. We are not bound by agreements entered into by parties before us. In addition, it is Iowa Gas's burden in

STATE OF IOWA
BEFORE THE IOWA STATE COMMERCE COMMISSION

IN RE: IOWA GAS COMPANY)	
APPLICATION FOR REVISION OF)	DOCKET NO. RPU-85- <u>22</u>
GAS RATES)	

DIRECT TESTIMONY
OF
HOWARD C. MOUNT

Q. Will you please state your name, occupation and business address?

A. My name is Howard C. Mount, and I am Vice President of Duff & Phelps, Inc., 55 East Monroe Street, Chicago, Illinois.

Q. Describe briefly your educational background and business experience.

A. I majored in Economics and Business at Aurora College, Aurora, Illinois, and received a Bachelor of Science degree in 1960. In 1968, I received a Masters Degree in Business Administration from Northern Illinois University, De Kalb, Illinois. From 1960 to 1968, I was employed by Northern Illinois Gas Company in a wide range of utility business research activities. In 1963, I was made Supervisor of Economic Studies responsible for economic evaluations of the Company. In 1964, I was elected Assistant Secretary and Assistant Treasurer of a new subsidiary, Apple River Chemical Company. In 1966, I returned to the parent company as Supervisor of Rate Studies with responsibilities for all rate research conducted by the Company.

1 In 1968, I accepted a position with Duff & Phelps, Inc. and was
2 made Vice President of the firm in January, 1975. With Duff &
3 Phelps, I have worked as a Security Analyst following a wide range
4 of utility companies and energy companies. In March, 1981, I was
5 made a member of the Duff & Phelps Fixed Income Rating Committee,
6 composed of senior officers and analysts. This Committee is
7 responsible for determining the ratings of all fixed income
8 securities made by Duff & Phelps. I have acted as consultant to the
9 Ontario Ministry of Energy in regard to rate matters. I have
10 testified before the Federal Power Commission in regard to the
11 spin-off of United Gas Pipeline Company from Pennzoil and returned
12 to testify as to the adequacy of the settlement agreement arrived at
13 by the parties to that spin-off. I have acted as management
14 consultant to municipal gas districts assisting them in the
15 preparation of budgets, in financial management, and in the
16 restructuring of their rate schedules. I have participated in the
17 preparation of rate case presentations for private utility
18 companies, and have submitted cost of equity and rate of return
19 testimony to the Federal Energy Regulatory Commission and to the
20 regulatory commissions of Florida, Idaho, Illinois, Iowa, Kansas,
21 Kentucky, Louisiana, Michigan, Missouri, New Jersey, New York, Ohio,
22 South Carolina, Washington, and Wisconsin.

23 I have lectured at the University of Colorado Executive
24 Education Program for the gas industry, in the areas of rate
25 regulation, utility financing and investment appraisal of utilities.

1 companies used for comparison is shown in schedule 5.

2

3 Q. Based on your calculation of yield and growth components, what is
4 the market cost of common equity for the thirteen companies selected
5 for comparison?

6 A. For the thirteen natural gas utilities selected for comparison, the
7 estimates, as set forth in Schedule 6, range from a minimum of 13.4%
8 to a maximum of 17.9% with a mean of 15.1%.

9

10 Q. Are any further adjustments to the cost of equity required for
11 ratemaking purposes?

12 A. A flotation or underpricing adjustment is necessary because the net
13 proceeds of a common stock sale are typically 3%-5% below the amount
14 paid by investors. However, the earned rate of return for the
15 Company is based on book equity, which will be lower than the market
16 price paid for the common stock investment.

17

18 Q. Is this adjustment necessary if Iowa Gas gets all of its common
19 equity from Iowa Resources Inc?

20 A. Yes. The key is that the return realized by investors is not
21 identical to the return realized by the Company because of issuance
22 and other expenses. The Company should be prepared to issue common
23 stock separately, if needed. We thus need to adjust the investor's
24 return as measured by the market data to a company return that can
25 be used for regulation. Hence, the flotation adjustment. Thus, the

1 issue of the source of Iowa Gas Company's equity is irrelevant for
2 our purposes. We are adjusting the historical market data to
3 convert it to a regulatory return.
4

5 Q. Could you show this more concretely?

6 A. Yes. Please examine Schedule 7. In this hypothetical example, a
7 company starts operations and finances its investment in utility
8 plant through an issuance of common equity with a market value of
9 \$1,000 to investors. The net proceeds to the company, however, are
10 a lesser \$950. With a 16% expected market return on investments of
11 similar risk, (i.e., a 16% unadjusted cost of common equity), the
12 total return requirement to investors is \$160 (16% x \$1,000 market
13 investment). For the company to have earnings of this same \$160,
14 though, the achieved return on book equity must be 16.8% (\$160
15 divided by \$950 initial book equity). In the second year, a similar
16 situation prevails. The main point is that the return on book
17 equity must exceed the market cost of common equity, by some 0.8% in
18 this example, even in the second period when no additional common
19 stock is sold.
20

21 Q. What is an appropriate flotation adjustment?

22 A. In 1984, four natural gas companies sold common stock to the public.
23 The net proceeds on average were 4.4% less than the market price to
24 the investors excluding expenses and 6.0% less including expenses.
25 Thus, a 5% net underpricing adjustment is appropriate.

DOCKET NOS. U-483 and RPU-76-7

STATE OF IOWA
IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY

DOCKET NOS. U-483
and RPU-76-7

ORDER APPROVING SUPPLEMENT TO STIPULATION AND AGREEMENT

(Issued March 22, 1978)

The matter is before us on the joint motion of all the parties to this proceeding filed March 21, 1978, for an order approving a Supplement to Stipulation and Agreement by and between all the parties relative to the determination of cost of service, including rate of return on common stock equity.

The Commission, having examined the Supplement to Stipulation and Agreement and having considered the motion of the parties in support of the Supplement, finds and determines that the Supplement to Stipulation and Agreement is reasonable and should be approved and adopted by the Commission in all of its terms without condition or modification.

THE COMMISSION ORDERS:

1. That the Supplement to Stipulation and Agreement by and between all of the parties to this proceeding filed on March 21, 1978 be, and it is hereby, approved and adopted by the Commission in all of its terms without condition or modification.

2. That Iowa-Illinois shall file for Commission approval a plan of refund in Docket No. U-483 and Docket No. RPU-76-7, in accordance with the terms of the Supplement to Stipulation and Agreement within thirty (30) days after the issuance of this order.

IOWA STATE COMMERCE COMMISSION

Mervyn L. Nordlund
Chairman

John A. Hume
Commissioner

ATTEST:

Dean A. Bailey
Secretary

Mervyn L. Nordlund
Commissioner

Dated at Des Moines, Iowa, this 22nd day of March, 1978.

STATE OF IOWA
BEFORE THE IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:)	
)	
)	DOCKET NO. U-483
IOWA-ILLINOIS GAS AND ELECTRIC COMPANY)	(Cause Nos. 57320 & 57321 Consolidated) and
)	DOCKET NO. RPU-76-7
)	

SUPPLEMENT TO STIPULATION AND AGREEMENT

The Stipulation and Agreement (Stipulation) relative to the determination of cost of service, excluding rate of return on common stock equity and alternative treatments of certain interperiod tax allocations entered into by the Staff of the Iowa State Commerce Commission (Staff), Iowa-Illinois Gas and Electric Company (Company), League of Iowa Municipalities (League) and the City of Davenport, Iowa (City) in Docket No. RPU-76-7 was the subject of the Order Approving Stipulation and Agreement issued April 14, 1977 by the Iowa State Commerce Commission (Commission).

This Supplement to the Stipulation and Agreement (Supplement) has been prepared and entered into by the parties whose counsel have executed it for the purpose of settling and concluding the cost of service including rate of return and interperiod tax allocation for interest, pensions and taxes capitalized where applicable in Docket Nos. U-483 and RPU-76-7. This Supplement is solely for the purpose of and applicable to Docket No. U-483, and the judicial review of same, and Docket No. RPU-76-7 and no others.

The Court, in the judicial review of Docket No. U-483 in the District Court of Iowa in and for Scott County (Cause Nos. 57320 and 57321, Consolidated), entered its Order March 2, 1978 sustaining and affirming the Order of the Commission entered April 30, 1976, as modified by Order entered June 21, 1976. In Docket No. RPU-76-7, the testimony of Company's witnesses on the issues of rate of return on common stock equity and interperiod tax allocation for interest, pensions and taxes capitalized has been given and cross-examination was concluded thereon. The prepared direct testimony of the Staff on interperiod tax allocations and rate of return has been filed and served on the parties, but such testimony has not yet been adopted under oath and subjected to cross-examination by Company.

The signatory parties to this Supplement are desirous that these proceedings be concluded and in consideration thereof Company will forebear pursuing its judicial appeal in Docket No. U-483 and make refunds in accordance with the Commission's Order of June 21, 1976. Further, the cost of service in Docket No. RPU-76-7 shall be predicated upon the "flow-through" method of accounting being utilized for income tax deductions associated with interest, pensions and taxes capitalized and the application of a 12.5 percent rate of return on common stock for the "locked-in" and "prospective" periods all in accordance with the Stipulation. Refunds will be made accordingly. The interest on refunds shall be 9 percent per annum in both Dockets.

Under the terms of the Stipulation and this Supplement in Docket No. RPU-76-7, the annualized revenue deficiency for the "locked-in" period is \$2,613,000 and the annualized revenue deficiency for the "prospective" period is \$4,417,000, adjusted to the rate level filed in Docket No. U-483.

The Company will file for Commission approval a plan of refund in Docket No. U-483 and Docket No. RPU-76-7 within thirty (30) days after the effective date of this Supplement.

Except as provided herein, the Stipulation and Agreement approved by the Commission on April 14, 1977, shall remain in full force and effect including the provisions of Article VI of such Stipulation.

This Supplement to Stipulation and Agreement shall not become effective unless and until the Commission has entered a final order approving and adopting all of the terms and conditions of this Supplement to Stipulation and Agreement without modifications or condition.

IOWA STATE COMMERCE COMMISSION
COMMISSION STAFF

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY

By Leo J. Steffen, Jr.
Assistant Commerce Counsel

By Edward J. Hartman
General Counsel

Dated this 16th day of March, 1978.

Dated this 16 day of March, 1978.

LEAGUE OF IOWA MUNICIPALITIES

CITY OF DAVENPORT, IOWA

By William F. Rueppel
Attorney

By William B. Waterhouse
Corporate Counsel

Dated this 16th day of March, 1978.

Dated this 17th day of March, 1978.

STATE OF IOWA
IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY

DOCKET NO. RPU-76-7

ORDER APPROVING STIPULATION AND AGREEMENT

(Issued April 14, 1977)

The matter came on for hearing on April 14, 1977, on the joint motion of all the parties to this proceeding for an order approving a Stipulation and Agreement by and between all the parties relative to determination of cost of service, excluding rate of return on common stock equity. Iowa-Illinois Gas & Electric Company was represented by Mr. Edward J. Hartman; The League of Iowa Municipalities was represented by Mr. William F. Sueppel; and the Staff of the Commission was represented by Mr. Lao J. Steffen, Jr.

The Commission, having examined the Stipulation and Agreement and having heard the arguments of the parties in support of the Stipulation and Agreement finds and determines that the Stipulation and Agreement is reasonable and should be approved and adopted by the Commission in all of its terms without condition or modification.

The Commission further finds that hearings in this proceeding previously fixed to commence on April 26, 1977 should be postponed until further order of the Commission.

THE COMMISSION ORDERS:

1. That the Stipulation and Agreement by and between all of the parties to this proceeding filed on April 13, 1977 be, and it is hereby, approved and adopted by the Commission in all of its terms without condition or modification.

2. That the hearings fixed by Commission order issued March 17, 1977 to commence on April 26, 1977 be, and they are hereby, postponed until further order of the Commission.

IOWA STATE COMMERCE COMMISSION

Maurice Van Nostrand
Chairman

ATTEST:

Paul H. Moore
Commissioner

Deanna A. Bailey
Secretary

Mary Z. Zucchi
Commissioner

Dated at Des Moines, Iowa, this 14th day of April, 1977.

STATE OF IOWA
BEFORE THE IOWA STATE COMMERCE COMMISSION

IN THE MATTER OF:)	
)	
IOWA-ILLINOIS GAS AND ELECTRIC)	DOCKET NO. RPU-76-7
COMPANY)	

STIPULATION AND AGREEMENT

ARTICLE I

Introduction

Iowa-Illinois Gas and Electric Company (Company) has pending before the Iowa State Commerce Commission (Commission) in the above-captioned docket an electric rate increase proceeding resulting from Company's filing made on February 20, 1976, the effectiveness of which was suspended until March 22, 1977 by the Commission's order issued March 18, 1976. The Commission's March 18, 1976 order also instituted an investigation to determine the reasonableness and legality of the proposed rate increase. The filed electric rates became effective subject to refund June 21, 1976, in accordance with Chapter 490A, Code of Iowa.

The City of Davenport, Iowa (City) and the League of Iowa Municipalities (League) have been authorized to intervene in Docket No. RPU-76-7 by order of the Commission.

Company and the League have also instituted separate judicial review proceedings in the District Court of Iowa in and for Scott County identified as Cause Nos. 57320 and 57321, Consolidated, of portions of the Commission's order and order

on rehearing in Docket No. U-483, the Company's prior rate increase filing.

This Stipulation and Agreement (Stipulation) has been prepared and entered into by Company, League, City and the Staff of the Commission (Staff) for the purpose of simplifying and limiting the issues and evidence in Docket No. RPU-76-7 and for the purpose of limiting the issues in the judicial review proceeding of Docket No. U-483 now pending in the District Court. This Stipulation is solely for the purpose of and applicable to Docket No. RPU-76-7 and the judicial review of Docket No. U-483 and no others.

ARTICLE II

Test Year

Company's rate increase filing was supported by accounting data for the calendar year ending December 31, 1975. Company moved that the calendar year 1976 be used as the test period and the motion was denied by the Commission.

On consideration for the League's, the City's and the Staff's waiver of any objections to the use of 1976 as the test period for Docket No. RPU-76-7 and the League, the City and the Staff commitment to persuade the Commission to utilize for the purpose of Docket No. RPU-76-7 a 1976 test period, Company stipulates and agrees to accept and abide by in Docket No. RPU-76-7, as more particularly described hereinafter, the regulatory principles and the methods, except as hereinafter specifically modified, for determining cost of service (excluding rate of return and interperiod tax allocation

for interest, pensions and taxes capitalized) adopted by the Commission in Docket No. U-483.

Company further stipulates and agrees that it will either withdraw or dismiss or not pursue in any manner whatsoever its judicial review of the Commission's Order and Order on Rehearing in Docket No. U-483 now pending in the District Court except for the issue of interperiod tax allocations for interest, pensions and taxes capitalized, which sole issue would be subject to review by the Court; and, Company further stipulates and agrees that it will, as soon as possible, refund all sums collected subject to refund in Docket No. U-483 in excess of the amounts found reasonable by the Commission except the portion attributable to the issue of interperiod tax allocation which portion will continue to be collected or held subject to refund pending review by the District Court.

In consideration of Company's acceptance in Docket No. RPU-76-7, of the regulatory principles and methods of determining cost of service (excluding rate of return and interperiod tax allocations for interest, pensions and taxes capitalized) adopted by the Commission in Docket No. U-483, and Company's agreement not to pursue any issue except interperiod tax allocations for interest, pensions and taxes capitalized in the judicial review proceeding of the Commission's orders in Docket No. U-483, the League stipulates and agrees that it will withdraw or dismiss or not pursue in any manner

The allowable rate of return shall be the overall cost of capital determined from the capital structure and cost rates for long-term debt, preferred stock and preference stock shown on lines 6 through 10 of Schedule 7 and the cost rate for common stock determined by the Commission after hearing to be appropriate for the "prospective" period.

(d) The level of rates for the "prospective" period shall be such that if charged during the entire 1976 adjusted test year would produce the allowable return indicated by multiplying the rate base determined in accordance with B.2(a)-(i) or B.2(a)-(ii), above, by the rate of return determined in accordance with B.2(c), above. In no event shall the level of rates for the "prospective" period exceed the level of the filed rates.

ARTICLE IV

Fair Rate of Return on Common Stock and Rate-Making Treatment of Income Tax Deductions Associated With Interest, Pensions and Taxes Capitalized.

The parties to Docket No. RPU-76-7 reserve the right to litigate only the issue of the fair rate of return on common stock and the issue of rate-making treatment of

income tax deductions associated with interest, pensions and taxes capitalized. The parties to the judicial review of Docket No. U-483 reserve the right to litigate only the issue of rate-making treatment of income tax deductions associated with interest, pensions and taxes capitalized.

ARTICLE V

Cost to Serve Study

The Company is presently engaged in making a cost to serve study for rate structure purposes and shall file a copy of such study with the Commission when completed.

ARTICLE VI

Privileged Document

This Stipulation and Agreement is made pursuant to Rules 7.7(4) and 7.9(2) of the Commission's Rules of Practice and Procedure, and if it is not accepted and approved by order of the Commission in its entirety without condition, it shall be privileged and of no effect. The provisions of this Stipulation and Agreement are intended to relate only to the specific matters referred to herein and no party by agreeing hereto waives any claim or right which it may otherwise have with respect to any matters not expressly provided for herein. It is further specifically understood and agreed that neither the Company, the League, the City, the Commission, the Staff, nor any other party or person shall be deemed to

have approved, accepted, agreed or consented to any rate-making principle or any method of cost of service determination, or cost allocation, underlying or supposed to underlie any of the provisions of this Stipulation and Agreement, or be prejudiced or bound thereby in any future Company rate proceeding, or in any proceeding.

ARTICLE VII

Condition Precedent to Stipulation and Agreement
Becoming Effective

Neither this Stipulation and Agreement nor any of the provisions hereof shall become effective unless and until the Commission has entered a final order approving and adopting all of the terms and conditions of this Stipulation and Agreement without modifications or condition.

COMMISSION STAFF
IOWA STATE COMMERCE COMMISSION

By Leo J. Steffen, Jr. Dated 11 day of April, 1977.
Assistant Commerce Counsel

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY

By Edward J. Hartman Dated 11 day of April, 1977.
General Counsel

LEAGUE OF IOWA MUNICIPALITIES

By William F. Schuppel Dated 11 day of April, 1977.
Attorney

CITY OF DAVENPORT, IOWA

By William B. Waterman Dated 12 day of April, 1977.
Corporate Counsel

DOCKET NOS. RPU-92-5 and WRU-92-29-152



TERRY E. BRANSTAD, GOVERNOR

IOWA UTILITIES BOARD
DEPARTMENT OF COMMERCE

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket Nos. RPU-92-5 and WRU-92-29-152

"ORDER APPROVING SETTLEMENT AND GRANTING WAIVER REQUEST"

Issued November 4, 1992

Parties Served:

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James R. Maret
Consumer Advocate
Department of Justice
Consumer Advocate Division
Lucas State Office Building
Des Moines, IA 50319

CERTIFICATE OF SERVICE

The undersigned hereby certifies ...
a foregoing document has been served ...
and copy upon all parties of record in this ...
proceeding by mailing, by first class mail, ...
to each such party a copy thereof, in ...
properly addressed envelope with charges ...
paid.

Dated ... 11-04-92 ...

Walt Ladd

NOV 6 1992

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE:

IOWA-ILLINOIS GAS AND ELECTRIC
COMPANY

DOCKET NOS. RPU-92-5
WRU-92-29-152

ORDER APPROVING SETTLEMENT AND GRANTING WAIVER REQUEST

(Issued November 4, 1992)

This proceeding was initiated on April 21, 1992, by Iowa-Illinois Gas and Electric Company (Iowa-Illinois) filing a request for a permanent annual revenue increase in its electric rates of approximately \$20 million and in its gas rates of approximately \$7.4 million. On July 20, 1992, the Utilities Board (Board) issued an order setting temporary rates. On September 2, 1992, the Board suspended the procedural schedule established in Docket No. RPU-92-5 with respect to all issues that were the subject of an anticipated settlement. On September 4, 1992, a "Joint Motion for Approval of Settlement Agreement" and "Settlement Agreement" were filed by Iowa-Illinois, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Deere & Company, Sivy Steel Corporation, Iowa Industrial Intervenors, and the Aluminum Company of America. The proposed settlement resolved all outstanding issues in the pending rate case except rate design and the funding of pensions and other post-employment benefits. A hearing on the proposed settlement was held on October 2, 1992, and Iowa-Illinois filed the additional information requested by the Board in the hearing on October 8, 1992. The proposed settlement allows an increase in electric rates of approximately \$10 million or five percent and an increase in gas rates of approximately \$5 million or 3.9 percent. A copy of the

Docket Nos. RPU-92-5, WRU-92-29-152
Page 2

settlement agreement is attached and incorporated by reference. The overall weighted cost of capital used to calculate the annual revenue requirement is 9.669 percent for electric revenues and 9.715 percent for gas revenues. The test period used to determine rates is the year ending December 31, 1991, as adjusted.

Portions of the settlement presented several difficult issues, including nuclear decommissioning, purchased gas adjustment (PGA) consolidation, and manufactured gas plant cleanup. The hearing on the proposed settlement produced testimony which indicated the parties thoroughly examined the issues and worked to reach a compromise settlement. While the Board may not have reached the same decision on individual issues as reflected in the settlement, the overall terms of the settlement are reasonable and generally consistent with recent Board decisions. After reviewing the record in this proceeding, pursuant to IOWA ADMIN. CODE 199-7.2(11) (1992), the Board finds the terms of the parties' settlement agreement to be reasonable and will approve it.

With its initial request, Iowa-Illinois filed a petition for waiver, identified as WRU-92-29-152, of IOWA ADMIN. CODE 199-19.10(1) which requires separate PGAs for each supplying pipeline. The settlement provides for the consolidation of the PGAs but does not address the rule requirement or waiver request. The Board had some initial concerns regarding the consolidation of the PGAs, but finds that with the new pipeline interconnections, consolidation makes sense in this case. The potential exists for overall system benefits. Since the PGA consolidation will be allowed under the terms of the settlement, a waiver of IOWA ADMIN. CODE 199-19.10(1) is necessary and will be granted. With the granting of

Docket Nos. RPU-92-5, WRU-92-29-152
Page 3

the waiver there are no aspects of the settlement agreement which are inconsistent with Iowa law or the rules of the Board, and the terms of the settlement agreement are in the public interest.

Although not specifically a rate case issue, the Board is interested in Iowa-Illinois' handling of the disposal of its low-level radioactive waste material. The Board requests Iowa-Illinois provide informal updates on its future disposal plans in light of the expiration of several contracts at the end of 1992. The Board also requests Iowa-Illinois provide the Board an informal report within the next 12 months on what consideration has been given to the retention of an Iowa-based trustee for its external nuclear decommissioning fund.

FINDINGS OF FACT

1. The proposed settlement is reasonable in light of the record in this proceeding.
2. The proposed settlement is in the public interest.

CONCLUSIONS OF LAW

The Utilities Board has jurisdiction over the parties and subject matter of this proceeding, pursuant to IOWA CODE §§ 476.1 and 476.6 (1991).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The joint motion to approve the settlement agreement filed by the parties in Docket No. RPU-92-5 on September 4, 1992, is granted.
2. The petition for waiver of IOWA ADMIN. CODE 199-7.2(11) (1992), identified as WRU-92-29-152, is granted.

Docket Nos. RPU-92-5, WRU-92-29-152
Page 4

3. On or before 45 days from the date of this order, Iowa-Illinois shall file tariffs for the Board's consideration to implement the terms of the "Settlement Agreement" filed by the parties on September 4, 1992, and attached to this order.

4. Motions and objections not previously granted or sustained are denied or overruled.

UTILITIES BOARD

Armin J. Nagel

Nancy S. Bayl

ATTEST:

Raymond K. Venter
Executive Secretary

Ernest J. George, Jr.

Dated at Des Moines, Iowa, this 4th day of November, 1992.

STATE OF IOWA
IOWA UTILITIES BOARD

IN RE:)	
)	
IOWA-ILLINOIS GAS AND ELECTRIC)	Docket No. RPU-92-5
COMPANY)	

SETTLEMENT AGREEMENT

ARTICLE I

Introduction

On April 21, 1992, Iowa-Illinois Gas and Electric Company (Iowa-Illinois) filed with the Iowa Utilities Board (IUB) revised electric and gas tariffs designed to produce an increase in Iowa jurisdictional electric revenues of \$20,037,000, or an average of 11.4% over existing electric rates, and an increase in Iowa jurisdictional gas revenues of \$7,360,000, or an average of 5.6% over existing gas rates. Increases in the electric and gas charges for reconnection of service following a disconnection for non-payment were also proposed. In addition, Iowa-Illinois proposed design changes for electric and gas rates.

On the same date, Iowa-Illinois filed an application for temporary increases in electric rates and certain gas rates. The temporary electric rates were designed to produce an increase in Iowa jurisdictional electric revenues of \$15,791,000. The temporary gas rates were designed to produce an increase in Iowa jurisdictional gas revenues from customers served under Rate 60,

Residence Gas Service, and Rate 70, General Service, of \$5,328,000.

On July 20, 1992, the IUB issued an order authorizing a temporary increase in electric revenues of \$7,517,000 and a temporary increase in gas revenues of \$4,669,000. The IUB further ordered that the increase in electric revenues be collected as a uniform percentage increase per class of customer. The IUB accepted Iowa-Illinois' proposed temporary gas rate design, authorizing temporary rate increases for customers served under Rate 60 and Rate 70.

By orders of various dates, the IUB authorized the intervention in this Docket of Deere & Company, Iowa Industrial Intervenor (Archer Daniels Midland Company and Ralston Purina Company), Aluminum Company of America, and Sivyer Steel Corporation.

ARTICLE II

Purpose

This Settlement Agreement has been prepared and executed by the signatories hereto for the purpose of resolving all issues except (1) the allocation of the agreed-upon revenue requirements among customer classes and other rate design issues (rate design issue) and (2) the ratemaking treatment to be followed with respect to pensions and other post-retirement benefits in light of Statement of Financial Accounting Standard 106 and Statement of Financial Accounting Standard 87 (FAS 106/87 issue). This Settlement Agreement is applicable only to this Docket.

In consideration of the mutual agreements hereinafter set forth, the signatories stipulate as follows.

ARTICLE III

Joint Motion

Upon execution of this Settlement Agreement, the signatories shall file the same with the IUB, together with a Joint Motion requesting the IUB issue an order approving this Settlement Agreement in its entirety, without condition or modification.

ARTICLE IV

Condition Precedent

This Settlement Agreement shall not become effective unless and until the IUB enters an order approving the same in its entirety without condition or modification.

ARTICLE V

Privilege and Limitation

This Settlement Agreement is made pursuant to IOWA CODE Section 17A.10 and 199 I.A.C. §7.2(11). This Settlement Agreement shall become binding upon the signatories upon its execution; provided, however, that if this Settlement Agreement does not become effective in accordance with Article IV above, it shall be null, void and privileged. This Settlement Agreement is intended to relate only to the specific matters referred to herein. No signatory waives any claim or right which it may

otherwise have with respect to any matter not expressly provided for herein. No signatory shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle, any method of cost of service determination, or any method of cost allocation underlying the provisions of this Settlement Agreement or be prejudiced or bound thereby in any other current or future proceeding before any agency. No signatory shall directly or indirectly refer to this Settlement Agreement as precedent in any other current or future proceeding before the IUB.

ARTICLE VI

Test Period

The justness and reasonableness of the rates in this Docket shall be determined on the basis of the pro-forma annual gas and electric revenue requirements for the test period consisting of the calendar year 1991, as adjusted.

ARTICLE VII

Rate Base

The electric jurisdictional rate base to be used to calculate Iowa-Illinois' annual electric revenue requirement in this Docket shall be as set forth in Attachments 1E and 2E. The jurisdictional gas rate base to be used to calculate Iowa-Illinois' annual gas revenue requirement in this Docket shall be as set forth in Attachments 1G and 2G.

ARTICLE VIII

Revenue Requirements

The Iowa jurisdictional electric revenue requirement, prior to an adjustment, if any, for the IUB's ultimate disposition of the remaining FAS 106/87 issue, shall be \$211,576,632 as derived and set forth in Attachments 1E through 6E. This annual revenue requirement represents an increase in annual electric revenues for Iowa-Illinois of \$10,027,438.

The Iowa jurisdictional gas revenue requirement, prior to an adjustment, if any, for the IUB's ultimate disposition of the remaining FAS 106/87 issue, shall be \$134,953,323 as derived and set forth in Attachments 1G through 6G. This annual revenue requirement represents an increase in annual gas revenues for Iowa-Illinois of \$5,113,581.

ARTICLE IX

Rate of Return and Capital Structure

The capital structure to be used to calculate Iowa-Illinois' annual electric and gas revenue requirements in this Docket shall be as set forth in Attachments 6E and 6G. The authorized return on common equity for Iowa-Illinois' jurisdictional electric operations for the purpose of this Docket shall be 11.9%. The authorized return on common equity for Iowa-Illinois' jurisdictional gas operations for the purpose of this Docket shall be 12.0%.

ARTICLE X

Explanation of Resolution of Certain Key Issues

The following explanation is provided by the signatories for the purpose of explaining to the IUB how certain key issues were resolved in arriving at the rate base, revenue requirements, and capital structure. Resolution of these and all other issues in this Settlement Agreement required compromises by all signatories based upon the facts and circumstances in this case only. Consistent with Article V, the resolution of these issues in this Docket shall not be precedential, and all parties expressly reserve all issues for future litigation.

Capital Structure -

Iowa-Illinois' witness Cooper proposed the capital structure for ratemaking purposes exclude the long-term debt, average 1991 amount of common equity funds (\$85,769,000), and average 1991 retained earnings (\$19,361,000) of Iowa-Illinois' non-regulated subsidiary, InterCoast Energy Company. Iowa-Illinois' proposal is accepted for the purpose of this Docket.

The calculation of debt cost in the Attachments to this Settlement Agreement also reflects the \$40,000,000 debt refinancing in October 1991 and the \$60,000,000 debt refinancing in May 1992.

Electric Temperature Normalization -

Iowa-Illinois' witness Langley proposed an adjustment to electric revenues and sales during the test period to reflect

temperature conditions. Iowa-Illinois' adjustment is not accepted for the purpose of this Docket.

Off-System Demand Charge and Energy Margin Revenues -

Under current Iowa ratemaking treatment, 100% of the revenues from the energy margin (profit) component of off-system sales flows to customers by operation of the energy adjustment clause (E.A.C.). With respect to revenues from the demand charge component of off-system sales, a representative level has traditionally been included in base rates. Iowa-Illinois' witness Christensen proposed that, prospectively, 60% of all net demand charge revenues and energy margin revenues be flowed through to customers through the E.A.C., with the remaining 40% to be retained by Iowa-Illinois. Iowa-Illinois' proposal is not accepted for the purpose of this Docket. The electric revenue requirement in the Attachments to this Settlement Agreement reflects the traditional ratemaking approach, with a representative level of \$1,700,000 of net demand charge revenues reflected in determining the electric revenue requirement.

Nuclear Decommissioning -

Iowa-Illinois' witness Burks proposed that nuclear decommissioning costs of \$5,401,000 be recognized in electric rates. He further proposed a rider which would recover nuclear decommissioning costs outside of a rate proceeding. The electric revenue requirement in the Attachments to this Settlement Agreement includes recognition of a representative level of nuclear decommissioning costs, the \$5,401,000 estimate proposed

by Iowa-Illinois. However, the rider concept is not approved.

Further, Iowa-Illinois shall contribute \$5,401,000 annually to its external nuclear decommissioning trust, without regard as to whether actual nuclear decommissioning cost collections from customers through base rates are greater or less than such amount.

Manufactured Gas Plant Costs -

Iowa-Illinois' witness Burks proposed the establishment of a reserve and external trust for manufactured gas plant investigation and remediation costs. He further proposed that the gas revenue requirement recognize an annual amount of \$625,000 for manufactured gas plant investigation and remediation costs. This Settlement Agreement does not accept Iowa-Illinois' reserve and trust proposal. The gas revenue requirement in the Attachments to this Settlement Agreement recognizes a representative level of annual manufactured gas plant investigation and remediation costs of \$248,000.

PGA Consolidation -

Iowa-Illinois' witness Richeson proposed that Iowa-Illinois' currently separate purchased gas adjustment clauses applicable to its Fort Dodge service area be consolidated with the purchased gas adjustment clauses applicable to the remainder of Iowa-Illinois' gas service area. Iowa-Illinois' proposal is accepted for the purpose of this Docket.

Management Efficiency Award

Iowa-Illinois' witness Hollonbeck requested the IUB consider a management efficiency award for the Company's gas operations. The gas revenue requirement in the Attachments to this Settlement Agreement does not contain any amount for a management efficiency award.

Reconnection Charges -

Iowa-Illinois' witness Richeson proposed that the electric and gas charges for reconnecting service at a customer's meter following disconnection for non-payment be increased from the current charge of \$7.00 to a charge of \$25.00 for electric reconnection and \$34.00 for gas reconnection. Reconnection charges of \$14.00 for electric service and \$18.00 for gas service have been negotiated in this Settlement Agreement. The electric and gas revenue requirements in the Attachments to this Settlement Agreement recognize the additional revenues anticipated from these reconnection charges.

ARTICLE XIProcedure

The Joint Motion filed pursuant to Article III shall contain a request by the signatories that, upon IUB approval of this Settlement Agreement, the IUB permit Iowa-Illinois to place into effect revised electric and gas rates designed to produce the electric and gas revenue requirements reflected in the

Attachments to this Settlement Agreement. These rates shall be calculated based upon unadjusted 1991 electric sales and temperature normalized 1991 gas sales. The rate design shall be the same as accepted by the IUB for the purpose of the temporary electric and gas rates in this Docket.

The two issues not resolved by this Settlement Agreement (PAS 106/87 and rate design) shall continue to be litigated on the schedule established by the IUB.

ARTICLE XII

Execution

To facilitate and expedite execution, this Settlement Agreement has been executed by the signatories in multiple conformed copies which, when the original signature pages are consolidated into a single document, shall constitute a fully-executed document binding upon all the signatories to be filed with the IUB.

Attachment 1E
Page 1 of 1Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Revenue Requirement
Electric Operations

Line No.	Description	Amount
-----	-----	-----
	(a)	(b)
1	Rate Base	\$435,469,240
2	Rate of Return	9.669%
3	Allowed Return	\$42,107,021
4	Adjusted Test Year Income	\$36,161,753
5	Additional Income Required	\$5,945,268
6	Income Tax Effect	\$4,082,170
7	Revenue Deficiency/(Excess)	\$10,027,438
8	Adjusted Test Year Revenue	\$201,549,194
9	Revenue Requirement	<u>\$211,576,632</u>

* Not all numbers may compute due to computer rounding.

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Average Rate Base
Electric Operations
(000's)

Attachment 2E
Page 1 of 1

Line No.	Description	Plant In Serv.	Accum. Depr.	Net Plant	Cust. Adv.	Cust. Dep.	Def. Income Taxes	3% Inv. Tax Credits	Accum. Prov.	Cash Work. Cap.	M&S	Fuel Stocks	Other Pre-Payments	Working Funds	Avg. Rate Base
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Iowa Jurisdictional Per Books	\$750,787	\$249,448	\$501,338	\$325	\$487	\$72,048	\$471	\$4,708	(\$10,594)	\$6,914	\$7,380	\$3,434	\$102	\$430,536
Pro Forma Adjs.															
2	Storm Damage	\$6,192		\$6,192											\$6,192
3	PP&P			0			0								0
4	Pensions						0								0
5	Nuclear Decomm.			0			0			248					248
6	Sale to Intercoast	(53)		(53)											(53)
7	Cash Working Cap.									2,121					2,121
8	Non-property DIT						3,575								(3,575)
9															0
10															
11															
12															
13															
14															
15															
16	Total Adjs.	6,139	0	6,139	0	0	3,575	0	0	2,370	0	0	0	0	4,934
17	Adjusted Rate Base	\$756,926	\$249,448	\$507,478	\$325	\$487	\$75,623	\$471	\$4,708	(\$8,225)	\$6,914	\$7,380	\$3,434	\$102	\$435,469

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Income Statement
Electric Operations
(000's)

Attachment 3E
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Line No.	Description	Rate Revenue	Other Revenue	Total Revenue	OGM	Not Used	Not Used	Depr. and Amort.	Other Taxes	Federal Inc. Taxes	State Inc. Taxes	Def. Inc. Taxes	Inv. Tax Credits	Total Expenses	Net Income
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Iowa Jurisdiction Per Books	\$196,403	\$4,378	\$200,780	\$106,513	\$0	\$0	\$25,128	\$14,277	\$10,312	\$3,808	\$1,043	(\$1,307)	\$159,774	\$41,006
Pro Forma Adjs.															
2	Updated Cust. Level	1,091		1,091						333	111			444	647
3	Temp. Normalization	0		0						0	0			0	0
4	Flexible Pricing	0		0						0	0			0	0
5	Offsystem Sales	(304)		(304)						(93)	(31)			(124)	(180)
6	Gen. Wage Adj.			0	1,001					(306)	(102)			593	(593)
7	Payroll Related Exp.			0	27				72	(30)	(10)			59	(59)
8	Wages--Joint Plants			0	510					(156)	(52)			302	(302)
9	Quad-Cities Station			0	2,150					(657)	(219)			1,275	(1,275)
10	Storm Damage			0	(564)			176		118	39			(230)	230
11	Medical Exp.			0	228					(70)	(23)			135	(135)
12	PBOP			0	0					0	0			0	0
13	Pension			0	0					0	0			0	0
14	Ut. Prop. Acq. Costs			0	(52)					16	5			(31)	31
15	Bank Fees			0	94					(29)	(10)			56	(56)
16	Cust. Dep. Interest			0	59					0	0			59	(59)
17	IUA Dues			0	(34)					10	3			(20)	20
18	Chamber Dues			0	(6)					2	1			(4)	4
19	Rate Case Exp.			0	98					(30)	(10)			58	(58)
20	Nuclear Decomm.			0				4,744		(1,449)	(482)			2,813	(2,813)
21	Sale to Intercoast		(18)	(18)				(7)	(2)	(3)	(1)			(13)	(5)
22	Interest Sync.			0						100	33			133	(133)
23	Prior Tax Adj.			0						45	61			107	(107)
24				0						0	0			0	0
25				0						0	0			0	0
26				0						0	0			0	0
27				0						0	0			0	0
28				0						0	0			0	0
29				0						0	0			0	0
30	Total Adjs.	787	(18)	769	3,511	0	0	4,913	70	(2,195)	(685)	0	0	5,613	(4,844)
31	Adj. Inc. Statement	\$197,190	\$4,360	\$201,549	\$110,023	\$0	\$0	\$30,041	\$14,347	\$8,116	\$3,123	\$1,043	(\$1,307)	\$165,307	\$36,162

Attachment 4E
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[illegible]